

August 29, 2016

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Rating	BUY
Price	Rs572
Target Price	Rs689
Implied Upside	20.5%
Sensex	27,903
Nifty	8,607

(Prices as on August 29, 2016)

Trading data

Market Cap. (Rs bn)	1,388.7
Shares o/s (m)	2,428.0
3M Avg. Daily value (Rs m)	1387.3

Major shareholders

Promoters	58.57%
Foreign	4.20%
Domestic Inst.	12.44%
Public & Other	24.79%

Stock Performance

(%)	1M	6M	12M
Absolute	5.3	55.7	41.1
Relative	5.8	34.4	35.4

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	64.0	55.1	16.2
2018	67.1	61.3	9.4

Price Performance (RIC: IOC.BO, BB: IOCL IN)



Source: Bloomberg

■ **Inventory gains drive outperformance:** IOCL reported Q1FY17 results ahead of our and consensus estimates; EBITDA of Rs136.8bn (PLe: Rs77.0bn) (+33%YoY, +188%QoQ) and PAT of Rs82.7bn (PLe: Rs39.3bn) (+35%YoY, +388%QoQ). Better-than-expected earnings was led by **1)** higher-than-expected refining margins of US\$9.98/bbl (PLe: US\$8.7/bbl), given strong inventory gains **2)** marketing inventory gains of Rs23.8bn and **3)** lower-than-expected other expenses (Q1 at Rs69.2bn, -16%QoQ, PLe at Rs85bn).

■ **Refining margins remain firm, but weakening Chinese demand remains a concern:** IOCL's refining margins continue to remain healthy; Q1FY17 GRMs at US\$9.98/bbl (Q4FY16 at US\$3.0/bbl) was supported by inventory gains; Q1 Singapore GRMs at US\$5/bbl. OMCs are also benefitting from lower fuel and oil losses which accounts for 5-9% led by benign crude oil prices. Also, discounts by Middle East suppliers to refiners supported refining margins. However, continued weakness in diesel and petrol spreads due to weakening industrial demand in China is likely to act as an overhang; we have modelled US\$5.4/5.6/bbl for FY17/18E.

■ **Marketing and petrochemical profits remain strong:** IOCL's Q1FY17 marketing profitability was supported by inventory gains of Rs23.8bn. This is despite lower diesel and petrol gross margins of at Rs2.4/2.6/litre vis-a-vis Rs3.1/3.3/litre in Q4FY16. Marketing earnings are expected to remain strong, going forward, due to strong volume growth and stable margins. For Q1 petrochemicals, EBITDA was at record levels of Rs20.3bn (+11%QoQ) due to strong petrochemicals spreads.

■ **Reiterate "BUY":** We increase our earnings by 4%/6%, respectively, to build in lower-than-expected power costs from drop in LNG costs and other changes in Annual report. Reiterate 'BUY' with a revised PT of Rs689 based on 10x FY18E plus adding the investments at 25% discount to market.

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	4,495,087	3,559,266	3,651,154	3,810,177
Growth (%)	(8.0)	(20.8)	2.6	4.4
EBITDA (Rs m)	105,359	231,967	279,616	294,806
PAT (Rs m)	48,315	106,280	155,328	162,888
EPS (Rs)	19.9	43.8	64.0	67.1
Growth (%)	(29.4)	120.0	46.1	4.9
Net DPS (Rs)	6.6	14.0	17.3	18.3

Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	2.3	6.5	7.7	7.7
RoE (%)	7.1	14.7	19.1	17.6
RoCE (%)	4.9	8.7	11.9	11.8
EV / sales (x)	0.4	0.5	0.5	0.4
EV / EBITDA (x)	18.5	8.2	6.0	5.7
PE (x)	28.7	13.1	8.9	8.5
P / BV (x)	2.0	1.8	1.6	1.4
Net dividend yield (%)	1.2	2.4	3.0	3.2

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Exhibit 1: Q1FY17 Result Overview (Rs m)

Y/e March	Q1FY17	Q1FY16	YoY gr. (%)	Q4FY16	QoQ gr. (%)
Net sales	1,072,007	1,137,435	(5.8)	987,047	8.6
Inc/dec in stock	(52,569)	(22,698)	NA	47,559	NA
Purchases	357,385	457,895	(22.0)	296,204	20.7
Raw material cons	332,193	383,848	(13.5)	297,574	11.6
Duties	211,199	122,674	72.2	203,040	4.0
Staff cost	17,716	23,743	(25.4)	12,876	37.6
Other expenditure	69,247	69,104	0.2	82,297	(15.9)
Exp	(935,171)	(1,034,565)	NA	(939,550)	NA
Operating profit	136,835	102,869	33.0	47,497	188.1
Interest	(6,800)	(6,180)	NA	(10,847)	NA
Depreciation	(14,350)	(11,619)	NA	(14,387)	NA
Other income	4,703	4,568	3.0	7,215	(34.8)
Profit before tax	120,388	89,639	34.3	29,477	308.4
Current tax	(24,753)	(18,514)	NA	(12,128)	NA
Profit after current tax	95,635	71,125	34.5	17,350	451.2
Deferred tax	(12,945)	(9,942)	NA	(421)	NA
Net profit	82,690	61,183	35.2	16,928	388.5
Extraordinary items	0	4,725	NA	(75)	NA
Other comprehensive income	3,607	278	NA	(23,618)	NA
Total comprehensive income	86,297	61,461	40.4	(6,689)	NA

Source: PL Research, Company Data

Exhibit 2: IOCL volume and margin details

	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Refinery thruput (MMT)	13.6	13.7	14.4	15.0	16.1
GRM(US\$/bbl)	10.8	0.9	5.9	3.0	10.0
Market sales-domestic (MMT)	19.4	18.1	19.1	20.5	20.4

Source: PL Research, Company Data

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	4,495,087	3,559,266	3,651,154	3,810,177
Raw Material Expenses	4,389,727	3,327,299	3,371,537	3,515,371
Gross Profit	105,359	231,967	279,616	294,806
Employee Cost	—	—	—	—
Other Expenses	—	—	—	—
EBITDA	105,359	231,967	279,616	294,806
Depr. & Amortization	52,190	59,185	61,366	65,680
Net Interest	(16,975)	13,839	8,004	7,719
Other Income	58,721	22,461	28,923	29,356
Profit before Tax	70,144	158,943	210,247	221,407
Total Tax	21,426	56,528	60,141	63,586
Profit after Tax	48,718	102,415	150,106	157,821
Ex-Od items / Min. Int.	402	(3,865)	(5,222)	(5,067)
Adj. PAT	48,315	106,280	155,328	162,888
Avg. Shares O/S (m)	2,428.0	2,428.0	2,428.0	2,428.0
EPS (Rs.)	19.9	43.8	64.0	67.1

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	466,765	288,525	342,118	301,345
C/F from Investing	(119,198)	(109,547)	(107,352)	(208,552)
C/F from Financing	(372,401)	(170,262)	(244,021)	(89,768)
Inc. / Dec. in Cash	(24,834)	8,716	(9,255)	3,024
Opening Cash	37,045	12,211	20,137	11,672
Closing Cash	12,211	20,137	11,672	14,697
FCFF	283,120	(79,079)	192,775	20,626
FCFE	(7,037)	(126,468)	84,096	73,692

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	(8.0)	(20.8)	2.6	4.4
EBITDA (%)	(38.2)	120.2	20.5	5.4
PAT (%)	(29.4)	120.0	46.1	4.9
EPS (%)	(29.4)	120.0	46.1	4.9
Profitability				
EBITDA Margin (%)	2.3	6.5	7.7	7.7
PAT Margin (%)	1.1	3.0	4.3	4.3
RoCE (%)	4.9	8.7	11.9	11.8
RoE (%)	7.1	14.7	19.1	17.6
Balance Sheet				
Net Debt : Equity	0.8	0.7	0.3	0.3
Net Wrkng Cap. (days)	2	(4)	1	2
Valuation				
PER (x)	28.7	13.1	8.9	8.5
P / B (x)	2.0	1.8	1.6	1.4
EV / EBITDA (x)	18.5	8.2	6.0	5.7
EV / Sales (x)	0.4	0.5	0.5	0.4
Earnings Quality				
Eff. Tax Rate	30.5	35.6	28.6	28.7
Other Inc / PBT	83.7	14.1	13.8	13.3
Eff. Depr. Rate (%)	3.7	3.5	3.4	3.2
FCFE / PAT	(14.6)	(119.0)	54.1	45.2

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	688,323	759,940	867,775	980,451
Total Debt	736,084	688,695	580,016	633,081
Other Liabilities	79,089	110,301	135,570	161,832
Total Liabilities	1,503,495	1,558,936	1,583,361	1,775,364
Net Fixed Assets	1,170,884	1,284,342	1,260,900	1,438,392
Goodwill	705	791	—	—
Investments	—	—	—	—
Net Current Assets	331,906	273,804	322,461	336,973
<i>Cash & Equivalents</i>	<i>172,898</i>	<i>176,913</i>	<i>299,242</i>	<i>333,328</i>
<i>Other Current Assets</i>	<i>992,467</i>	<i>957,792</i>	<i>938,466</i>	<i>945,947</i>
<i>Current Liabilities</i>	<i>833,458</i>	<i>860,901</i>	<i>915,247</i>	<i>942,302</i>
Other Assets	—	—	—	—
Total Assets	1,503,495	1,558,936	1,583,361	1,775,364

Quarterly Financials (Rs m)

Y/e March	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Net Revenue	853,848	834,619	987,047	1,072,007
EBITDA	6,948	52,420	47,497	136,835
<i>% of revenue</i>	0.8	6.3	4.8	12.8
Depr. & Amortization	11,286	11,693	14,387	14,350
Net Interest	1,528	(396)	3,632	2,097
Other Income	5,765	6,500	7,215	4,703
Profit before Tax	(5,865)	41,122	29,477	120,388
Total Tax	1,688	15,285	12,549	37,698
Profit after Tax	(3,292)	30,568	16,853	82,690
Adj. PAT	(3,292)	30,568	16,853	82,690

Key Operating Metrics

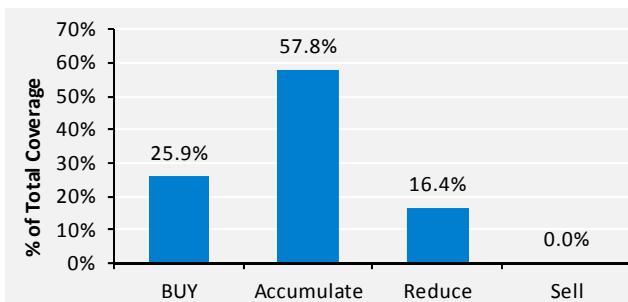
Y/e March	2015	2016	2017E	2018E
Crude /bbl	85.6	47.6	50.0	50.0
US\$/Rs	61.1	65.4	66.5	67.0
GRM (US\$/bbl)	0.3	5.1	5.4	5.6
Refining volume (MTPA)	53.6	56.7	64.7	68.7
Net subsidy burden (Rs m)	(12,003)	(90)	—	—

Source: Company Data, PL Research.

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Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months
Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month
Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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